

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Implement the California Renewables Portfolio Standard Program.

Rulemaking 04-04-026 (Filed April 22, 2004)

REPLY OF THE CALIFORNIA WIND ENERGY ASSOCIATION AND THE GREEN POWER INSTITUTE TO RESPONSES TO THE PETITION FOR **MODIFICATION OF DECISION 05-12-042**

CALIFORNIA WIND ENERGY ASSOCIATION

Nancy Rader **Executive Director** California Wind Energy Association

Telephone: 510-845-5077

Email:

nrader@calwea.org

THE GREEN POWER INSTITUTE

Gregory Morris, Director a program of the Pacific Institute 2039 Shattuck Ave., Suite 402 Berkeley, CA 94704

ph: (510) 644-2700 fax: (510) 644-1117

Email: gmorris@emf.net

Joseph M. Karp Karleen M. O'Connor Winston & Strawn LLP 101 California Street, 39th Floor San Francisco, California 94111-5894

Telephone: (415) 591-1000
Facsimile: (415) 591-1400
Email: jkarp@winston.com

koconnor@winston.com

Attorneys for the California Wind Energy Association

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I. INTRODUCTION

Pursuant to Rule 16.4(g) of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure and Administrative Law Judge ("ALJ") Simon's Ruling on the California Wind Energy Association's ("CalWEA") and the Green Power Institute's ("GPI") Motion to Expedite, CalWEA and GPI respectfully submit this Reply to Responses to CalWEA's and GPI's Petition for Modification of Decision 05-12-042 ("Petition to Modify").

Five of the eight responses to Petition to Modify support CalWEA's and GPI's proposal to include a greenhouse gas ("GHG") adder in the Market Price Referent ("MPR") determination. The three responses that object to the Petition to Modify are those of the three investor-owned utilities. Two of those three, Pacific Gas & Electric Company ("PG&E") and San Diego Gas & Electric ("SDG&E"), object more to the timing than the substance of CalWEA's and GPI's proposal. Indeed, PG&E states "PG&E acknowledges that, in the future, a GHG adder may be appropriate."

¹ Response of PG&E, p. 1.

The broad support demonstrated by consumer advocates, utilities, environmental groups, and renewable energy developers, however, confirms the overall merit of CalWEA's and GPI's proposal to include a GHG adder in the equation used to calculate the long-term MPR (10-20) year duration) for the RPS program. A GHG adder is appropriate, and the appropriate time is now.

II. DISCUSSION

In Decision 05-12-042, the Commission acknowledged that a GHG adder for the MPR would become appropriate when GHG "policy discussions are translated into regulatory programs or other sufficiently concrete market impacts." The enactment of SB 1368 and AB 32 commit California to a comprehensive regulatory program that greatly limits the emissions of GHGs associated with the production of California's electricity supply. CalWEA's and GPI's Petition to Modify details the solid legal arguments in support of the proposal for a GHG adder in the MPR. Rather than repeat those arguments in this Reply, CalWEA and GPI will address the utilities' arguments.

A. With Enactment of AB 32 and SB 1368, GHG Costs Are Sufficiently Quantifiable Today

In Southern California Edison Company's ("SCE") Response to CalWEA's and GPI's Petition to Modify, SCE makes several assertions that bear correction. SCE argues that because the Commission and the California Air Resources Board ("CARB") have yet to publish final regulations pursuant to AB 32, "quantifiable impacts in the form of a GHG adder to the MPR would only be speculation." Even after the Commission promulgates regulations, an exact "quantifiable impact" may not be immediately known because the AB 32 program is likely to be,

² D. 05-12-042 at 48.

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³ SCE Response to Petition to Modify, p. 3.

in part, market-based. Any market response to this program of declining emission allowances will likely evolve in a manner that is difficult to predict at the outset.

Nevertheless, AB 32 and SB 1368 firmly entrench a statutory GHG reduction program, and the process of compliance is in motion. Retail providers in California who ignore the carbon intensity of their long-term procurement decisions today do so at their own peril. The carbon intensity of long-term generating resources is already influencing the electricity marketplace. The Commission's trigger for the inclusion of a GHG adder in the MPR has been reached.

B. The Utilities' Argument Regarding Load-Based Caps versus Source-Based Caps Is a Red Herring.

SCE further argues that (1) because the Commission signaled its preference for a load-based GHG emissions cap in Decision 06-02-032; and (2) the MPR applies to generating sources, that "[t]herefore, assuming the Commission adopts GHG limits based on load-base caps for LSEs, the regulations for AB 32 will never be applicable to the MPR, because no known 'out-of-pocket' expenses for conventional generation will ever be established." This argument is the ultimate red herring. Regardless of whether the Commission ultimately adopts a load-based cap or a source-based program, there will be a cost to reduce the greenhouse gas emissions associated with electricity production — even with the most efficient regulatory regime in place. The Commission can estimate this cost using analytical tools that it has already adopted for other equivalent applications, as argued in CalWEA's and GPI's Opening Petition to Modify. CalWEA and GPI propose that the Commission apply those analytical tools and incorporate a GHG adder in the 2007 and subsequent MRPs.

⁴ SCE Response, pg. 3.

⁵ Currently, both approaches are on the table, with SCE advocating strongly for the source-based alternative.

C. CalWEA's and GPI's Petition to Modify is Limited to the Issue of Including a GHG Adder in the 2007 and Successive MPRs.

The Center for Energy Efficiency and Renewable Technologies' ("CEERT") Response to the Petition to Modify expresses a range of concerns regarding the use of the MPR within the context of the Commission's overall RPS program. These concerns go beyond the limited purposes of CalWEA's and GPI's Petition for Modification. CalWEA and GPI share many of CEERT's concerns, particularly those of scrupulously preserving the statutory purpose of the MPR to allocate the costs of a long-term RPS project between the retail provider and the supplemental-energy payment program. CalWEA and GPI ask that the Commission consider the Petition to Modify, however, within the limited context in which CalWEA and GPI offered it. CalWEA and GPI request that the Commission add a GHG adder to the existing calculation for the determination of the MPR used for sanctioned RPS solicitations for long-term generating resources. CalWEA and GPI also respectfully request that the Commission act now so that the Commission can incorporate any GHG adder into the 2007 MPR. Finally, CalWEA and GPI request that any action taken by the Commission in response to this Petition to Modify not prejudice any future actions the Commission deems appropriate regarding the MPR and GHG regulation.

III. CONCLUSION

For the foregoing reasons, the CalWEA and GPI respectfully request the Commission modify Decision 05-12-042 to include a GHG adder in the annual MPR for the RPS solicitations.

Respectfully/submitted,

CALIFORNIA WIND ENERGY ASSOCIATION

Nancy Rader Executive Director California Wind Energy Association

Telephone: 510-845-5077

Email: <u>nrader@calwea.org</u>

THE GREEN POWER INSTITUTE

Gregory Morris, Director a program of the Pacific Institute 2039 Shattuck Ave., Suite 402 Berkeley, CA 94704

ph: (510) 644-2700 fax: (510) 644-1117

Email: gmorris@emf.net

Joseph M. Karp Karleen M. O'Connor Winston & Strawn LLP 101 California Street, 39th Floor San Francisco, California 94111-5894

Telephone: (415) 591-1000 Facsimile: (415) 591-1400 Email: jkarp@winston.com

koconnor@winston.com

Attorneys for the California Wind Energy Association

Certificate of Service

I hereby certify that I have this day served a copy of the

Reply of the California Wind Energy Association and the Green Power Institute to Responses to the Petition for Modification of Decision 05-12-042

on all known parties to R.04-04-026 and R.06-02-012 by sending a copy via electronic mail and by mailing a properly addressed copy by first-class mail with postage prepaid to each party named in the official service list without an electronic mail address.

Losalie Harschell

Executed on July 24, 2007 at San Francisco, California.

SANFRAN 134660 (2K)

Service List for R.04-04-026 As of July 18, 2007

dgulino@ridgewoodpower.com keith.mccrea@sablaw.com csmoots@perkinscoie.com rresch@seia.org garson knapp@fpl.com david.saul@solel.com dhuard@manatt.com rkeen@manatt.com douglass@energyattorney.com klatt@energyattorney.com cathy.karlstad@sce.com amsmith@sempra.com fortlieb@sandiego.gov troberts@sempra.com GloriaB@anzaelectric.org thunt@cecmail.org Joe.Langenberg@gmail.com dorth@krcd.org jaturnbu@ix.netcom.com pepper@cleanpowermarkets.com wblattner@semprautilities.com freedman@turn.org stephen.morrison@sfgov.org fjs@cpuc.ca.gov rsa@a-klaw.com alhi@pge.com ecl8@pge.com bill.chen@constellation.com ipross@votesolar.org bcragg@goodinmacbride.com jsqueri@goodinmacbride.com jkarp@winston.com ssmyers@att.net arno@recurrentenergy.com gpetlin@3phases.com jhamrin@resource-solutions.org jchamberlin@strategicenergy.com ralf1241a@cs.com jpigott@gen3solar.com wbooth@booth-law.com sherifl@calpine.com gmorris@emf.net jgalloway@ucsusa.org nrader@igc.org tomb@crossborderenergy.com janreid@coastecon.com meganmmyers@yahoo.com johnrredding@earthlink.net jweil@aglet.org

jsanders@caiso.com

jdalessi@navigantconsulting.com abb@eslawfirm.com dcarroll@downevbrand.com janmcfar@sonic.net steven@iepa.com notice@psrec.coop ryan.flynn@pacificorp.com karen.mcdonald@powerex.com bshort@ridgewoodpower.com roger@berlinerlawpllc.com obrienc@sharpsec.com vsuravarapu@cera.com porter@exeterassociates.com tjaffe@energybusinessconsultants.COM cswoollums@midamerican.com mcollins@icc.illinois.gov abiecunasip@bv.com pletkari@bv.com jon.jacobs@paconsulting.com kisimonsen@ems-ca.com jenine.schenk@apses.com chilen@sppc.com emello@sppc.com emello@sppc.com jgreco@caithnessenergy.com hyao@semprautilities.com rprince@semprautilities.com steve@energyinnovations.com THAMILTON5@CHARTER.NET jackmack@suesec.com case.admin@sce.com frank.w.harris@sce.com gary.allen@sce.com woodrujb@sce.com lizbeth.mcdannel@sce.com aabed@navigantconsulting.com lwrazen@sempraglobal.com tcorr@sempra.com liddell@energyattorney.com scottanders@sandiego.edu mmilner@coral-energy.com centralfiles@semprautilities.com cmanzuk@semprautilities.com susan.freedman@sdenergy.org dniehaus@semprautilities.com ileslie@luce.com imungi@energycoalition.org csteen@bakerlaw.com jleblanc@bakerlaw.com

olsen@avenuecable.com

hal@rwitz.net mdjoseph@adamsbroadwell.com diane fellman@fpl.com Dan.adler@calcef.org mhyams@sfwater.org dwang@nrdc.org dcover@esassoc.com filings@a-klaw.com sdhilton@stoel.com snuller@ethree.com dickerson07@fscgroup.com dbrockett@navigantconsulting.com ell5@pge.com jay2@pge.com lennyh@evomarkets.com nxk2@pge.com jonwelner@paulhastings.com cem@newsdata.com koconnor@winston.com judypau@dwt.com bobgex@dwt.com sho@ogrady.us cpuccases@pge.com gxl2@pge.com nbb2@pge.com vjw3@pge.com rwalther@pacbell.net procos@alamedapt.com keithwhite@earthlink.net andy.vanhorn@vhcenergy.com pthompson@summitblue.com dietrichlaw2@earthlink.net ramonag@ebmud.com mrw@mrwassoc.com bepstein@fablaw.com rschmidt@bartlewells.com cchen@ucsusa.org janice@strategenconsulting.com rhwiser@lbl.gov DCDG@pge.com lynn@lmaconsulting.com cpechman@powereconomics.com kswain@powereconomics.com sberlin@mccarthylaw.com davido@mid.org brbarkovich@earthlink.net rmccann@umich.edu demorse@omsoft.com cmkehrein@ems-ca.com e-recipient@caiso.com

Service List for R.04-04-026 As of July 18, 2007

grosenblum@caiso.com saeed.farrokhpay@ferc.gov cpucrulings@navigantconsulting.com kyle.l.davis@pacificorp.com lpark@navigantconsulting.com karly@solardevelop.com dougdpucmail@yahoo.com mclaughlin@braunlegal.com dkk@eslawfirm.com kdw@woodruff-expert-services.com pstoner@lgc.org blaising@braunlegal.com www@eslawfirm.com rroth@smud.org vwood@smud.org hurlock@water.ca.gov Iterry@water.ca.gov

karen@klindh.com californiadockets@pacificorp.com dws@r-c-s-inc.com castille@landsenergy.com ajo@cpuc.ca.gov aes@cpuc.ca.gov bds@cpuc.ca.gov bwm@cpuc.ca.gov dsh@cpuc.ca.gov esl@cpuc.ca.gov ijw@cpuc.ca.gov if2@cpuc.ca.gov jmh@cpuc.ca.gov mrl@cpuc.ca.gov

ner@cpuc.ca.gov

nil@cpuc.ca.gov nao@cpuc.ca.gov psd@cpuc.ca.gov svn@cpuc.ca.gov sed@cpuc.ca.gov skorosec@energy.state.ca.us JMcMahon@navigantconsulting.com claufenb@energy.state.ca.us hraitt@energy.state.ca.us kzocchet@energy.state.ca.us mpryor@energy.state.ca.us rmiller@energy.state.ca.us trf@cpuc.ca.gov

Via U.S. Mail:

President Michael R. Peevey California Public Utilities Commission 505 Van Ness Avenue San Francisco, CA 94102

ALJ Anne E.Simon California Public Utilities Commission 505 Van Ness Avenue San Francisco, CA 94102

ALJ Burton Mattson California Public Utilities Commission 505 Van Ness Avenue San Francisco, CA 94102

Service List for R.06-02-012 As of July 23, 2007

cindv.sola@directenergv.com dgulino@ridgewoodpower.com rick noger@praxair.com keith.mccrea@sablaw.com csmoots@perkinscoie.com rresch@seia.org lisa.decker@constellation.com garson knapp@fpl.com ei wright@oxv.com stacy.aguayo@apses.com jenine.schenk@apses.com rsnichol@srpnet.com david.saul@solel.com chilen@sppc.com rprince@semprautilities.com dhuard@manatt.com rkeen@manatt.com bill.chen@constellation.com energy@3phases.com mmazur@3phases.com susan.munves@smgov.net douglass@energyattorney.com klatt@energyattorney.com pssed@adelphia.net pssed@adelphia.net cathy.karlstad@sce.com william.v.walsh@sce.com kswitzer@gswater.com kswitzer@gswater.com amoore@ci.chula-vista.ca.us customerrelations@sel.com amsmith@sempra.com fortlieb@sandiego.gov email@semprasolutions.com troberts@sempra.com hharris@coral-energy.com tdarton@pilotpowergroup.com tdarton@pilotpowergroup.com GloriaB@anzaelectric.org xplaxico@heliosenergy.us lalehs101@hotmail.com kerry.eden@ci.corona.ca.us thunt@cecmail.org Joe.Langenberg@gmail.com dorth@krcd.org jaturnbu@ix.netcom.com pepper@cleanpowermarkets.com freedman@turn.org stephen.morrison@sfgov.org nao@cpuc.ca.gov

theresa.mueller@sfgov.org mhyams@sfwater.org ek@a-klaw.com rsa@a-klaw.com alhj@pge.com crmd@pge.com bill.chen@constellation.com ipross@votesolar.org bcragg@goodinmacbride.com jsqueri@goodinmacbride.com jwiedman@goodinmacbride.com ikarp@winston.com mday@gmssr.com ikarp@winston.com jeffgray@dwt.com sho@ogrady.us ssmyers@worldnet.att.net gpetlin@3phases.com jhamrin@resource-solutions.org ECL8@pge.com ichamberlin@strategicenergy.com raif1241a@cs.com wbooth@booth-law.com sherifl@calpine.com jody_london_consulting@earthlink.net gmorris@emf.net ndesnoo@ci.berkeley.ca.us clyde.murley@comcast.net tomb@crossborderenergy.com janreid@coastecon.com johnrredding@earthlink.net jweil@aglet.org cmkehrein@ems-ca.com jsanders@caiso.com jdalessi@navigantconsulting.com abb@eslawfirm.com www@eslawfirm.com dcarroll@downeybrand.com glw@eslawfirm.com janmcfar@sonic.net steven@iepa.com ryan.flynn@pacificorp.com karen.mcdonald@powerex.com dhecht@sempratrading.com bshort@ridgewoodpower.com steven.schleimer@barclayscapital.com/cover@esassoc.com obrienc@sharpsec.com vsuravarapu@cera.com

porter@exeterassociates.com

ralph.dennis@constellation.com cswoollums@midamerican.com abiecunasjp@bv.com pletkarj@bv.com ahendrickson@commerceenergy.com jsniffen@elementmarkets.com bbaker@summitblue.com kjsimonsen@ems-ca.com erici@eslawfirm.com emello@sppc.com tdillard@sierrapacific.com igreco@caithnessenergy.com elizabeth.douglass@latimes.com harveyederpspc.org@hotmail.com steve@energyinnovations.com jackmack@suesec.com David.Townley@townleytech.com case.admin@sce.com frank.w.harris@sce.com garv.allen@sce.com woodrujb@sce.com lizbeth.mcdannel@sce.com rkmoore@gswater.com daking@sempra.com lwrazen@sempraglobal.com tcorr@sempra.com ygross@sempraglobal.com liddell@energyattorney.com mshames@ucan.org scottanders@sandiego.edu mmilner@coral-energy.com centralfiles@semprautilities.com dniehaus@semprautilities.com ileslie@luce.com billm@enxco.com csteen@bakerlaw.com jleblanc@bakerlaw.com michaelgilmore@inlandenergy.com olsen@avenuecable.com hal@rwitz.net mdjoseph@adamsbroadwell.com wblattner@semprautilities.com diane_fellman@fpl.com Dan.adler@calcef.org dwang@nrdc.org filings@a-klaw.com sls@a-klaw.com sdhilton@stoel.com tjaffe@energybusinessconsultants.commuller@ethree.com

Service List for R.06-02-012 As of July 23, 2007

abonds@thelen.com

dbrockett@navigantconsulting.com lennyh@evomarkets.com

lawcpuccases@pge.com

vjw3@pge.com nxk2@pge.com

jonwelner@paulhastings.com

cem@newsdata.com cem@newsdata.com jscancarelli@flk.com judypau@dwt.com bobgex@dwt.com

lisa_weinzimer@platts.com

cpuccases@pge.com

arno@recurrentenergy.com

ELL5@pge.com gxl2@pge.com kebd@pge.com S1L7@pge.com rwalther@pacbell.net procos@alamedapt.com keithwhite@earthlink.net jpigott@gen3solar.com

andy.vanhorn@vhcenergy.com

rick_noger@praxair.com kowalewskia@calpine.com duggank@calpine.com phanschen@mofo.com

pthompson@summitblue.com

ptnompson@summitblue.co philha@astound.net dietrichlaw2@earthlink.net nellie.tong@us.kema.com ramonag@ebmud.com paulfenn@local.org

mrw@mrwassoc.com bepstein@fablaw.com

cwooten@lumenxconsulting.com

rschmidt@bartlewells.com

cchen@ucsusa.org

elarsen@rcmdigesters.com janice@strategenconsulting.com

brenda.lemay@horizonwind.com

nrader@calwea.org

rhwiser@lbl.gov

whitney@mp2capital.com brian@banyansec.com lynn@lmaconsulting.com sberlin@mccarthylaw.com

davido@mid.org chrism@mid.org dbrockett@navigantconsulting.com

lennyh@evomarkets.com lawcpuccases@pge.com

vjw3@pge.com nxk2@pge.com

jonwelner@paulhastings.com

cem@newsdata.com
cem@newsdata.com
jscancarelli@flk.com
judypau@dwt.com
bobgex@dwt.com

lisa_weinzimer@platts.com

cpuccases@pge.com

arno@recurrentenergy.com

ELL5@pge.com gxl2@pge.com kebd@pge.com S1L7@pge.com rwalther@pacbell.net procos@alamedapt.com keithwhite@earthlink.net jpigott@gen3solar.com

andy.vanhorn@vhcenergy.com rick_noger@praxair.com kowalewskia@calpine.com duggank@calpine.com phanschen@mofo.com

pthompson@summitblue.com philha@astound.net

dietrichlaw2@earthlink.net nellie.tong@us.kema.com ramonag@ebmud.com

paulfenn@local.org mrw@mrwassoc.com

bepstein@fablaw.com cwooten@lumenxconsulting.com

rschmidt@bartlewells.com

cchen@ucsusa.org

elarsen@rcmdigesters.com janice@strategenconsulting.com

brenda.lemay@horizonwind.com

nrader@calwea.org rhwiser@lbl.gov

whitney@mp2capital.com brian@banyansec.com lynn@lmaconsulting.com

sberlin@mccarthylaw.com

davido@mid.org chrism@mid.org

dbrockett@navigantconsulting.com lennyh@evomarkets.com lawcpuccases@pge.com vjw3@pge.com nxk2@pge.com jonwelner@paulhastings.com cem@newsdata.com

Via U.S. Mail:

cem@newsdata.com

President Michael R. Peevey California Public Utilities Commission 505 Van Ness Avenue San Francisco, CA 94102

ALJ Anne E.Simon California Public Utilities Commission 505 Van Ness Avenue San Francisco, CA 94102

ALJ Burton Mattson California Public Utilities Commission 505 Van Ness Avenue San Francisco, CA 94102

William Cronin Energy America, LLC One Stamford Plaza 8th Floor 263 Tresser Blvd. Stamford, CT 06901